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MEMORANDUM FOR: Deputy Director (Support)

2 JUL 1959

SUBJECT: Agency Industrial Security Program

This memorandum contains recommendations in paragraph four for DD/S approval.

1. PROBLEM:

To determine the delineation of responsibility and authority most conducive to the efficient discharge of the Agency's responsibility in the field of industrial security.

2. FACTS:

a. The Industrial Security Program of the Agency is currently being conducted by four organizational components:

- (1) Security Staff, Office of Logistics
- (2) Security Staff, TSS
- (3) Physical Security Division, Office of Security
- (4) Development Projects Staff, DD/P

Because of the manner in which the support elements of the Development Projects Staff, DD/P are constituted it is assumed that its functions should be considered as a separate entity. However, the support functions of this staff have a direct relationship to the overall problem of industrial security and have been excluded from this study only on the grounds of assumed sensitivity.

b. Agency Regulation dated 7 May 1954 states:

"2b. The Director of Security is responsible for:

- (1) Conducting security investigations in order to furnish the Chief of Logistics with precontract and contract clearances.
- (2) Consistent with the primary inspection responsibility of the Chief of Logistics as set forth in paragraph c below, performing physical security inspections when deemed necessary.

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2c. The Chief of Logistics is responsible for:

- (3) Determining that the contractor has, or will establish, adequate physical security safeguards and performing security inspections."

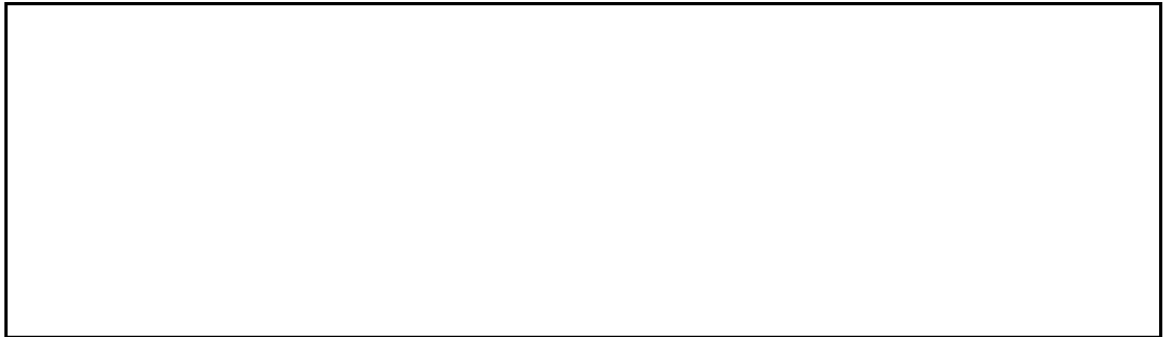
- c. In conflict with paragraph b above Agency Regulation dated 14 March 1958 states:

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"b(13) The Director of Security shall:

Make necessary inspections, investigations, and reports to assure proper maintenance of security. Such inspections and investigations pertaining to overseas activities will be coordinated with the Deputy Director (Plans)."

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- e. The Director of Security in his memorandum to the Director of Logistics, dated 15 August 1958, established reinspection schedules:

"(1) Item or Project Classified

When the item or project covered in a contract is intrinsically classified, the contractor should be reinspected at a minimum of once each six months as presently scheduled.

(2) Agency Association Only Classified

On contracts that are classified due to Agency association only, the contractor and his facilities should be inspected at least once each year as presently scheduled."

- f. There are currently approximately 280 contractors on which reinspections should be conducted with a specific periodic frequency. This total is composed of approximately 25% or 70 which should be reinspected once each six months and approximately 75% or 210 which should be reinspected at least once each year.

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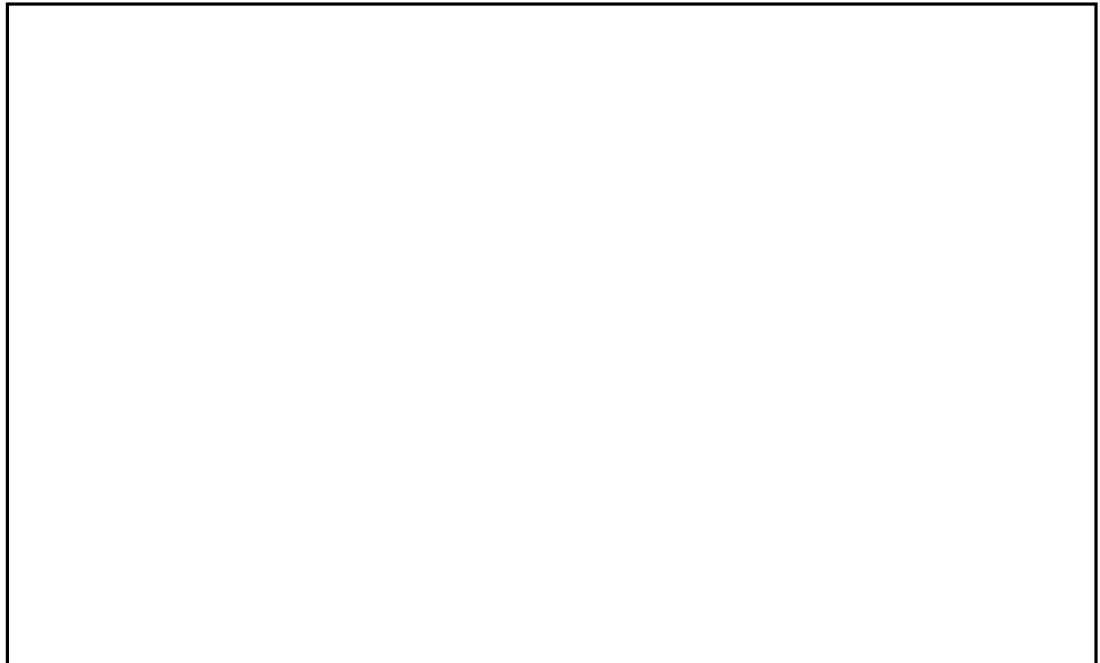
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g. The schedules covered in e above have not been attained. The Office of Logistics publishes a quarterly listing of industrial inspections due by the end of the quarter concerned. These lists are divided among three Agency components (Logistics, Security and TSS) and are assigned to specific individuals to accomplish the inspections. The list published on 18 April 1959 covered 93 industrial inspections due to be completed by 31 May 1959. Of this total of 93 only 25 inspections had been performed by 15 May 1959 or 37.6% of the goal set. Fifty-eight or 62.4% of the 93 inspections due by 31 May 1959 were carried forward on the subsequent list of inspections due by 31 August 1959.

h. During August 1958 the Office of Security conducted a study with regard to industrial inspections and recommended to the Director of Logistics that in order to close the ever widening gap in security inspections timing, that Headquarters personnel from the Office of Security would be assigned as time permitted to assist in this overall program.

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i.



j. Under the existing system there can be upwards of eight persons from the Agency in direct liaison with commercial organizations for the fulfillment of their specific contractual responsibilities:

- (1) Contract negotiators
- (2) Contract administrators
- (3) Procurement personnel (in the event of government-furnished equipment)

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- (4) Contract security experts
- (5) Industrial security inspectors (engaged in physical security)
- (6) Substantive technical inspectors
- (7) Contract Audit Branch personnel (Office of the Comptroller)
- (8) Contract terminators

25X1 k. Notice No. [] Subject: Contractor Classified Security, Pre-contract Contacts, dated 9 July 1958 specifies that "in the interest of good security, all CIA Headquarters personnel should coordinate with the Security Staff, Office of Logistics, any initial contacts with commercial firms, universities, etc., when the purpose of the contact is contemplated Agency procurement contracts, both classified and unclassified. This coordination is requested to avoid possible conflicts of interest with Agency components presently using the same contact in connection with sensitive classified contracts."

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25X1 l. Regulation [] dated 7 May 1954 subject Classified Contract Security states in paragraph 2a "The Chiefs of Major Components or their designees, are responsible for: (3) obtaining security approval from the Director of Security through the Chief of Logistics prior to contacting a prospective contractor."

3. DISCUSSION:

a. The operation of the three components currently conducting physical security inspections should be brought together under the command jurisdiction of the Director of Security, who has as assigned by the Director of Central Intelligence, the overall responsibility in this, as well as other fields of security as it affects Agency activities. Insofar as is possible and to the degree that manpower will permit commensurate with the training schedule provided for [] the Office of Security, inspection of industrial companies should be conducted [] which the commercial organizations are located. Such responsibilities being conducted directly from [] the Office of Security by trained personnel will greatly reduce the amount of travel and the accompanying monetary expenditures formerly necessary by inspectors []

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b. Despite the provisions of Notice No. [] cited in paragraph 2k above and paragraph 2a(3) of Reg. [] cited in paragraph 2l above there have been instances when personnel of organizational elements of the Agency have gone directly to potential contractors disclosing Agency affiliation. This has caused great concern on

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the part of the management of these companies, and if negotiations were to have been carried to fulfillment they might have jeopardized Agency contracts in progress on highly sensitive matters.

- c. The manufacturing and fabrication of specialized equipment for the Agency is generally looked upon with enthusiasm by the engineering and scientific personnel within commercial companies as it affords them an opportunity for research and experimentation in new fields. On the other hand, the management of these companies may not be quite as enthusiastic as for the greater part the materials being produced have little or no possible conversion to civilian use and these contracts generally have a very small margin of profit. As a result contacts with contractual management must be handled with an extreme degree of finesse and care, notwithstanding the requirements imposed by good security, by Agency personnel from the original contact through contract negotiation and termination.
- d. In the interest of obtaining wider and more timely coverage of industrial companies under contract to the Agency it is considered advisable to eliminate the necessity for inspection time schedules based on dates of contracts. In lieu thereof attempts should be made to make inspections within a geographical section of the U.S. at the same time. Such a procedure would eliminate the necessity for individual trips to and from the same area with recurring frequency and permit all contractors within a geographical section of the U.S. to be examined at one time.

4. RECOMMENDATIONS:

It is recommended that:

- a.
- b. Agency Regulation dated 7 May 1954 be revised to realign the security functions of physical security and inspections as a direct responsibility of the Director of Security. (See Tab B)
- c. A central control point be established within the Office of Security, Physical Security Division, through which all Agency personnel will coordinate prior to contacting commercial organizations when the purpose is contemplated Agency procurement. Such a control point to be charged with the maintenance of records to include the type and extent of security clearances given to individuals within commercial organizations.

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- d. Notice No. [] dated 9 July 1958 be republished as an Agency Regulation in the [] (Office of Security) making clearances through the central control point mandatory for individuals making contact with commercial organizations. (See Tab C) 25X1
- e. Employees engaged fulltime in industrial security in TSS, Office of Logistics and Office of Security be centralized in one component within the Office of Security, Physical Security Division for the conduct of industrial security inspections. That this component be physically located within the Office of Logistics in order to have direct access to contractual records and to be knowledgeable of current contractual negotiations being undertaken by other components of the Office of Logistics.
- f. To the extent possible, commensurate with the training of such employees, physical security inspections of commercial organizations under contract to the Agency be conducted by Office of Security personnel [] 25X1
- g. The following positions and incumbents together with appropriate ceilings be transferred to the Office of Security, Physical Security Division for the fulfillment of realigned responsibilities of industrial security: 25X1

Chief, Management Staff

Attachments:
Tabs A, B, and C.
Concurrences.

The recommendations in paragraph 4 are approved:

L. K. WHITE
Deputy Director (Support)

Date

SUBJECT: Agency Industrial Security Program

CONCURRENCES:

_____ Director of Logistics	_____ Date
_____ Director of Security	_____ Date
_____ Chief, Technical Services Staff	_____ Date